Preventing the resource curse? An examination of the Chad-Cameroon Pipeline Project

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COMPULSORY DECLARATION

This work has not been previously submitted in whole, or in part, for the award of any degree. It is my own work. Each significant contribution to, and quotation in, this dissertation from the work, or works, of other people has been attributed, and has been cited and referenced.

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DEDICATION

This work is dedicated with love and gratitude to my parents.

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To my supervisor John Akokpari for his support and guidance during this process and to the faculty of the Department of Political Science for their lessons over the years.

To my family, especially my siblings, for their never-ending patience and encouragement.

Abstract

The resource curse is a theory which argues that rather than being a conduit for development natural resources can in fact lead to slow growth, civil war and hinder democracy. This thesis focuses specifically on the inverse relationship between dependence on the export of natural resources and slow economic growth, and how to prevent it. One specific instance to prevent the resource curse is examined: the Chad-Cameroon Pipeline Project. Boasting the biggest private investment ever to be made on the African continent and including a partnership with the World Bank, the project was hailed as a blueprint for all future resource ventures. In reality the project was a complete failure, despite attempting to deal with the causes of the resource curse. Three reasons for the failure of the World Bank's policy are identified: the disregard for the political situation in Chad, reliance on conditionality to ensure government compliance and the rush to get oil flowing. At the end recommendations are made to ensure that the political situation of a host country is taken into account before any kind of policy is embarked upon. It is also suggested that certain conditions need to be present if any policy attempting to deal with the resource curse is to meet with success, including the necessity for some kind of capacity in the country concerned as well as a minimal level of political stability.

List of Acronyms

AFRICOM	Africa Command
CCPP	Chad-Cameroon Pipeline Project
CCSRP	*Collège de Contrôle de Surveillance des Ressources Pétrolières* (Oil Revenues Control and Monitoring Board)
CENTCOM	Central Command
COTCO	Cameroon Oil Transportation Company
FGF	Future Generations Fund
IAG	International Assistance Group
IBRD	International Bank for Reconstruction and Development
IEG	Independent Evaluation Group
IFC	International Financial Corporation
IFI	International Financial Institution
OPEC	Organisation of Petroleum Exporting Countries
OAPEC	Organisation of Arab Petroleum Exporting Countries
PAD	Project Appraisal Document
PSMCBP	Petroleum Sector Management Capacity-Building Project
RMP	Revenue Management Program
TOTCO	Tchad Oil Transportation Company

Contents

Chapter One: Introduction

The problem

The resource curse or paradox of plenty is the theory that rather than being a conduit for growth and development natural resources such as cotton, gold or oil, can lead to slow growth, increased chance of civil conflict and even (in the case of the last resource) hinder democracy.[1] The resource curse theory has proved to be easy to predict but difficult to prevent. In the case of countries dependent on the export of mineral resources and oil in particular, the curse has been found to be more severe. The high demand for oil has placed oil producing countries in a unique situation. The importance of the commodity, the demand for it and the competition to gain control of the resource means that to a large extent, oil exporters can dictate their own terms. Increased competition for oil resources means that oil exporters are more vulnerable than before to oil-hungry multinationals and the states that they represent. The difficulties of effectively managing oil wealth and translating it into visible economic prosperity has been compounded by developments in recent years, such as the rise of China and its need for oil and the wars in Afghanistan and Iraq. The threat of the curse of natural resources is not enough to stave off countries needing to ensure access to oil.

The problems of the resource curse have been widely documented and analysed. There is even an opposing set of literature made up of those who doubt the veracity of the claims of the resource curse. These people argue that the econometric data indicating the inverse relationship between resource dependence and economic growth are not robust enough for the two to be inescapably linked. These doubts are refuted by the abundance of evidence supporting the resource curse thesis in the form of the many countries that exhibit similar outcomes with only their dependence on primary commodity export in common.

The question that needs to be asked is why it is so important to explain and understand this tendency of natural resources to get in the way of economic and political development. The answer to this is that for a large number of developing countries, the only thing they have to

[1] See Karl (1997), Sachs & Warner (1997), Collier & Hoeffler (2000) and Ross (2001)

rely on to further development is natural resources. If resources cannot be successfully exploited then development becomes even more difficult.

It is in this context that attention is turned to the Chad-Cameroon Pipeline Project (CCPP). The CCPP is the World Bank's (or Bank's) attempt to show that with the right policy resources do not have to hinder a country's growth, that resources can be harnessed to eradicate poverty. The project is unique in that it is the most direct attempt by an International Financial Institution (IFI) to prevent the slow growth and economic decline often found in resource rich countries, a phenomenon known as the resource curse.

Purpose of the study

The purpose of this thesis is two-fold. The first goal is to examine the case of the Chad-Cameroon Pipeline Project, measuring its design and execution against the causes of the resource curse theory to see how effectively the project addressed these causes. The investigation finds that the project was a complete failure. Three particular reasons for this are noted. The first is that the World Bank's project was formulated without taking the political situation of Chad into account. Despite being the first policy of its kind and despite several innovative and original additions to older solutions specifically tailored to the situation in Chad, the program was still lacking any grounding in the political reality existing in the country. The second reason is that conditionality does not work in the case of resource dependent countries, and so the program of increased conditionality that was chosen was ineffective. And finally, the speed with which the pipeline part of the project was carried out meant that not enough time was left for the social aspects of the program to take effect or even be implemented, contributing to the failure of the project.

The second purpose of this thesis is to add to the explanatory power of the resource curse theory by discerning the lessons that can be learned through the mistakes of the World Bank, potentially strengthening the preventative power of the theory. While not excusing the performance of the World Bank, the fact remains that even when it tried to deal with the curse using a full frontal attack, not the slightest difference was made. It will be shown here that in order for the resource curse to be effectively dealt with certain preconditions need to be met. The resource curse theory underlines the importance of political stability and institutional strength. What is argued here is that these should be considered as necessary preconditions to successful policy implementation. It is not just enough to have a plan that can be put in place to deal with or prevent the problems of the resource curse. The instruments to properly execute such a plan need to be in existence. The manner in which this is done is also important. Institutional preparations need to be made before resource revenue starts flowing in, if possible.

The Case Study

The Chad-Cameroon Pipeline Project

The Chad-Cameroon Pipeline Project (CCPP) is the first and possibly last undertaking of its kind. It was completely unique in several respects. The first was the level of international involvement. The World Bank acted as both partner of the project (providing part of the funds) and as risk guarantor for the government of Chad – the first time that the World Bank had been so involved in an undertaking of this kind. The second feature that is unique is the size of the investment of $3.7 billion, which is the largest ever to be made in Africa.[2] The third feature is the level of corporate responsibility that was demanded from the private actors concerned with the project. The fourth is the scope of the project. It covered everything from the building of the pipeline to the management of oil revenue including outlines for government spending and the sectors that income should be spent on. In an attempt to prevent the effects of the resource curse the World Bank designed a Revenue Management Programme that would ensure that the billions of dollars that would accrue to the government over 25 years was spent where it was most needed.[3] When it began the project was hailed as a new kind of arrangement that would solve the problems of development in Africa. The actual experience was something completely different.

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[2] Ken Vincent, "Undoing Oil's Curse? An Examination of the Chad-Cameroon Pipeline Project" in Jalloh & Falola (eds.), *The United States and West Africa: interactions and relations* (Rochester: University of Rochester Press, 2008): 423

[3] Nikola Kojucharov, "Poverty, Petroleum & Policy Intervention: Lessons from the Chad-Cameroon Pipeline", *Review of African Political Economy*, 34 113 (2007): 481 [Online]. Available at: http://www.informaworld.com/smpp/title~content=t713443496 [2010, May 19]

Why Chad is a useful case

There are several reasons why Chad is a useful case in the context of this study. Although it is not an ideal case, its drawbacks pale in comparison to the insight that can be gained by employing it.

The first and most obvious reason that Chad is a good case is that it is an oil producer. While it is true that the resource curse can manifest in any country that is reliant on the export of any type of natural resource including agricultural goods such as timber, there is evidence to show that mineral resources in general and oil in particular increase the risk.[4] For Chad oil is currently the only means through which it will be able to solve the many challenges that it faces. This, combined with the instability of oil makes the need for a solution more urgent. If this opportunity is going to be effectively utilised then there needs to be an examination of what went wrong and how it can be fixed.

The second reason why Chad is a good case is that it was a place where everything could be started from scratch. Having only recently put together a plan to extract and export the oil, there were no remnants of previous failed attempts to contend with when setting up the program that was created to manage oil revenues. At the same time, as the project was being set up, oil was not flowing yet, which meant that there was the possibility that the institutional infrastructure would be in place before the corrosive effects of the resource curse took hold.

The third reason was the high level of awareness of the possible difficulties that oil dependent nations might experience. All the actors involved were aware of the complications that could arise, hence the scale and depth of the project. There was also an acknowledgement of previous failures, which led to the arrangements of this particular project being different in certain aspects to those previous projects. Even though there are no other instances to compare the CCPP to, the design was informed by the shortcomings of past cases.

[4] See Auty (1995)

The fourth factor in favour of Chad as a case is the level of international involvement. The CCPP was a highly public and politicised case almost from the moment it was launched. The involvement of the World Bank as risk guarantor and as a kind of mediator was to ensure that the parties involved were not exploiting each other. The direct role that the World Bank would play, as well as interest from various activist groups and NGOs around the world meant that here, more than before, there was pressure to ensure that resource revenues would be managed responsibly.

The failure of the project in Chad, despite all the extra provisions taken, shows the weakness of the policy used as a means to prevent the damage inflicted by the resource curse. Even though extenuating circumstances did contribute to the project, it is the model itself that proved to be faulty.

Limitations

Before commencing certain limitations to this study need to be noted. The first is that although the resource curse will constantly be talked about, the specific relationship that is being examined is the one between dependence on natural resource exports and slow economic growth. There are two reasons for this. The first is that, as will be mentioned in more detail further on, the stated objective of the World Bank with regard to the CCPP was to achieve the goal of poverty alleviation funded by economic growth and development brought about through the successful exploitation of oil revenues. The second reason for this limitation is that inclusion of the other two consequences of the resource curse could not be adequately examined given the scope of this thesis. Thus when the resource curse is mentioned this relates specifically to resource dependence and slow growth.

The second limitation relates to the case. The project is called the Chad-Cameroon Pipeline Project. As a landlocked country Chad does not have access to the sea to easily export its oil. As such an underground pipeline was proposed from the southern Chadian oil fields across Cameroon to the Atlantic Ocean. Despite the involvement of Cameroon and the fact that majority of the pipeline passes through the country, the experience in Cameroon will not be examined. Even though Cameroon will benefit partly from oil revenues, the location of the oil in Chad itself means that the majority of revenues will flow there and it is in Chad that the effects of the curse would be felt the strongest. It is also toward Chad that the Revenue Management Program, a focus of this thesis, was implemented.

The rest of this thesis will proceed as follows. The next chapter will introduce the theory of the resource curse, with special attention being given to the causes of the economic effects of the resource curse. Chapter three presents the case of Chad, looking first at the history of the country, followed an account of the salient points of the CCPP. The World Bank's program is measured against its responses to the causes of the resource curse. Chapter four sums up the arguments made in this work, reflects on some of the lessons learned and concludes the thesis.

Chapter Two: The Resource Curse Theory

A paradox of modern economics is the fact that countries with an abundance of valuable natural resources such as diamonds and oil tend to be less well off than those countries that do not. The resource curse is a theory which argues that contrary to conventional economic logic, natural resources are not always helpful in promoting the goals of economic growth and wealth generation. Rather, natural resources can often lead to slower growth[5] and can actually induce poverty.[6] Further investigation revealed that the effects go beyond simply slow economic growth and include low public service efficiency, corruption, the success of democracy and violent conflict.[7] Although resource dependence has been linked to several problems of growth and governance there are three particular outcomes that are exhibited by most resource dependent countries. The first effect is the propensity to slow economic growth. The second is the increased likelihood of conflict (mostly civil conflict). The third, relating particularly to oil dependent states, is the decreased likelihood of democracy. Further, it was discovered that countries with natural resources were more prone to conflict, specifically intrastate conflict.[8] Although the theory initially focused on the economic dimensions of the curse, over time the theory has come to include political dimensions as well. It has been found that natural resources most severely affect institutions, making them weak and sometimes non-functional.[9] This is a bigger problem than that of economic growth in that the instability of resource wealth and its mismanagement is what leads to the other problems associated with resources – slow growth and development, and conflict.

The theory does not argue categorically that resources are a curse. Rather, it states that in some countries, particularly those that are underdeveloped, there is a higher chance of resource wealth being a hindrance rather than a help. Countries such as Norway and Botswana have been hailed as great successes and examples of the possibilities that can be

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[5] The economic growth that is being referred to is GDP growth.
[6] See Gelb (1988), Sachs & Warner (1995), Davis (1995), Karl (1997), Auty & Mikesell (1998)
[7] Rod Alence, "Evading the 'Resource Curse' in Africa: Economics, Governance, and Natural Resources", *Global Insight*, 52 (August 2005): 1
[8] Paul Collier & Anke Hoeffler, "Greed and Grievance in Civil War" (January 2000) [Online]. Available at: http://www. worldbank. org/research/conflict [2009, October 10]
[9] Halvor Mehlum, Karl Moene & Ragnar Torvik, "Institutions and the Resource Curse", *The Economic Journal*, 116 (January 2006): 1-20 [Online]. Available at: http://www.svt.ntnu.no/iso/ragnar.torvik/bardhanjde.pdf [2009, September 4]

achieved through well-managed resources. This has led to some subscribing to theories of a conditional resource curse, such as Thad Dunning. These theories argue that some conditions will lead to one outcome (for example slow growth) while other conditions will lead to another outcome associated with the resource curse (such as conflict). Such theories also argue that the effects of the resource curse can be dependent on the type of resource being exported.[10]

The question that needs to be asked then is what the difference is between those states that have managed to successfully exploit their natural resources and those that have not. What has been found is that if resources are properly managed they can deliver on the promise that they hold. By looking at what it is that causes the problems associated with natural resources, one can learn how to overcome a resource curse. The literature on the causes of the resource curse can be divided into two: economic causes and political causes. The economic causes explain what can happen to the economy of a resource exporter and why. The political causes focus on issues of good governance, explaining how and why the absence of good governance standards leads to a resource curse. The following sections look at the causes that lead to poor growth and usually poverty exacerbation. The next section looks at two causes of the resource curse: Dutch disease – what it is and how it happens; and the instability of resource income. Section three of this chapter looks at three political weaknesses: institutional weakness, policy and good governance. Bearing in mind that the resource curse is being used as a theory against which to judge the World Bank's progress in Chad, where the stated goal was poverty alleviation, the problems of increased chance of conflict and decreased likelihood of democracy are not examined. Although Chad has a history of violent conflict that has recently been fed by the presence of natural resources, peacekeeping was not the primary mission of the World Bank and as such will not be a primary consideration of this thesis.

[10] Thad Dunning, "Resource Dependence, Economic Performance, and Political Stability", *Journal of Conflict Resolution*, 49 4 (August 2005): 452 [Online]. Available at: http://www.jstor.org/stable/30045127 [2011, 10 January]

1. Economic causes

1.1 Dutch disease

Empirical studies carried out attempting to explain slow growth found evidence of an inverse relationship between economic growth and dependence on the export of primary commodities. The most influential of these was the 1995 study by Jeffrey Sachs and Andrew Warner. [11] They gathered evidence from a large number of countries dependent on primary commodity export and tested them to see if they did in fact have lower levels of economic growth than their resource-poor counterparts. They found that the higher the dependence on primary commodity exports, the higher the likelihood of slow or even negative economic growth, caused by a series of economic events termed Dutch disease.

Dutch disease was the term given to the series of economic events that followed the exploitation of natural gas in the Netherlands. Simply put, it can be explained as the "coexistence of booming and lagging sectors in an economy due to a temporary or sustained increase in export earnings"[12], meaning that the growth of one sector (the resource sector) occurs at the expense of other key sectors. Dutch disease occurs after a boom in the resource industry, with the ultimate result being low levels of economic growth, sometimes at rates even lower than those in the pre-boom era. Economic booms are usually seen as a good thing, a sudden influx of cash that can lead to greater development. The problem is that booms are not sustainable. If they are not handled properly and behaviour is not appropriately adjusted the following lag can be very harmful.[13]

The travails of Dutch disease begin with the exchange rate. When a resource is discovered, the subsequent resource boom results in an appreciation of the exchange rate. This

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[11] Jeffrey D. Sachs & Andrew M. Warner, "Natural Resource Abundance and Economic Growth", *Centre for International Development and Harvard Institute for International Development* (November 1997): 2 [Online]. Available at: http://www.cid.harvard.edu/ciddata/warner_files/natresf5.pdf [2009, June 12]
[12] Graham A. Davis, "Learning to Love the Dutch Disease: Evidence from the Mineral Economies", *World Development*, 23 10 (1995): 1768 [Online]. Available at: http://www.sciencedirect.com/science?_ob=MImg&_imagekey=B6VC6-3YCMM4R-17-2&_cdi=5946&_user=635696&_orig=search&_coverDate=10%2F31%2F1995&_sk=999769989&view=c&wchp=dGLzVzz-zSkWz&md5=ed207fb346936a33f437a8e8f7b8c46f&ie=/sdarticle.pdf [2008, 21 September]
[13] Jeffrey Sachs & Andrew Warner, 7-8

translates into slower growth in other sectors of the economy as they become less competitive internationally as a result of the inflated exchange rate. Goods from other sectors can also be hurt in domestic markets if the increased foreign reserves from resource export are used to buy goods from other countries. Domestic producers can be hurt even further by the natural resource sector through increased competition for non-tradeables (such as construction, labour, materials) as a result of further development. This phenomenon has been labelled the "resource pull effect"[14]. In the Dutch case it was the manufacturing sector which suffered a lag through the resource boom. In the developing world and Africa in particular, the sector which tends to be the most affected is agriculture.

Income instability

A further problem of booms is that of income instability. The price volatility of most resources (minerals resources and oil in particular) means that it is difficult to pinpoint exactly how much income will be earned from month to month. Booms and busts often happen without any prior warning, creating vast differences in earnings over different time periods. Income becomes very difficult to manage in this cycle as there is always an element of uncertainty. The change in prices means that policy should also have to change in light of the funds governments have available to them. Such sudden adjustments are not easily made. Problems are exacerbated by the practice of some governments of lending against future earnings, effectively creating debt during a period that should be one of surpluses.[15]

Part of the difficulty is that there are not many countries that can afford to live off resource earnings as a rentier state. Aside from a few Middle Eastern states such as Saudi Arabia and Kuwait, most countries do not earn enough for them to be able to rely solely on resource rents[16]. In such cases the way that the money is spent becomes even more important as

[14] Macartan Humphreys, Jeffrey D. Sachs & Joseph E. Stiglitz, "Introduction: What Is the Problem with Natural Resource Wealth?" in *Escaping the Resource Curse*, (New York: Columbia University Press, 2007): 5
[15] Graham A. Davis, 1765
[16] This is the economic term given to the profits earned on resource capital.

this is the only source of income that government can rely on. Creating more wealth requires intelligent spending and investment.[17]

2. Political causes

2.1 Policy

Although the Dutch disease explanation has been useful in creating greater understanding of the resource curse it has been unable to account for all cases where natural resource exportation and slow growth occur together. The Dutch disease explanation also presupposes that all states have another internationally competitive economic sector, when in fact resources are often the only thing that countries have to rely on[18]. Closer inspection of resource booms and windfalls in different states has revealed that the difference lay in the reaction of the government to these economic movements. By contrasting countries according to their policy decisions it was discovered that those who had been able to formulate successful responsive policy had been able to weather the storm and to mitigate the negative effects experienced by Dutch disease.

One of the biggest problems leading to slow growth and development is the fact that resource revenues tend to be badly managed. The first reason for this, as mentioned before, is that resource revenues are in and of themselves difficult to manage. The constant state of flux that income is in means that spending becomes difficult to plan. The second reason is that the sudden flow of income is sometimes too good for officials to resist. The primary concern of individuals in government becomes focused on how to maximize their share of resource wealth rather than mobilizing that wealth for the greater good.[19] Where governments do attempt public works projects, these sometimes become showy and ultimately useless endeavours, so-called 'white elephant' projects.

[17] Paul Collier, *The Bottom Billion* (New York: Oxford University Press, 2007): 38
[18] Raymond F. Mikesell, "Explaining the resource curse, with special reference to mineral-exporting countries", *Resources Policy*, 23 4 (1998): 197-198 [Online]. Available at: http://www.jstor.org/stable/2721217 [2008, 30 September]
[19] Joseph E. Stiglitz ed., "What Is the Role of the State?" in *Escaping the Resource Curse*, eds. Sachs, Humphreys (New York: Columbia University Press, 2007): 24

An excellent example of the effect of policy is through the comparison of two states: Ghana and Malaysia, two states which share a similar historical background and economic starting points but which took different development paths, with largely divergent ends. The similarities of the two countries in their initial post-colonial phase include the following: both were previous British colonies and as such inherited the same democratic system with a fair civil service and a higher than average education system. Both had large percentages of GNP from resources (30% and 50% for Ghana and Malaysia respectively) and both were growing at a similar, steady rate. The difference between the two states was the policies which were adopted. Ghana's economic policies led to market failures in the 1960s while those of Malaysia were able to create and sustain an acceptable level of growth despite dependence on natural resources.[20]

2.2 Good governance

Issues of governance are seen as key to understanding the resource curse. Two types of governance are distinguished: political governance and economic governance. These are explained as being that the former is associated with how effective and open public authority is and how it is organized while the latter refers to the state's ability to perform actions to facilitate economic growth.[21] It is argued that if "governance is the key to African development, the resource curse may be caused by poor management of resource wealth more so than by the mere possession of that wealth"[22]. Comparisons between countries that have been resource successes and those that have failed have found that "variations in economic performance are caused by difference in the quality of governance that are linked through the type of political state"[23].

Having resources worsens problems of accountability. Rents accrue directly to the state, often in partnership with private actors who act outside of their countries of origin and are

[20] Richard M. Auty, "How Natural Resources Affect Economic Development", *Development Policy Review*, 18 (2000): 355-357 [Online]. Available at: http://web.nps.navy.mil/~relooney/DPR_21.pdf [2008, September]
[21] Alence, 5
[22] Alence, 5
[23] Auty, 347

held to account by a different standard. Rent seeking[24] behaviour only serves to exacerbate this problem. Bad governance due to lack of transparency and accountability often leads rents gained from resources to land in the pockets of individuals rather than going toward state programs of improvement such as education and healthcare. Corruption is an enormous problem, especially since the profits can be lucrative. Transparency and accountability become difficult to enforce when the enforcers themselves have a vested interest in making sure that they do not come under any scrutiny.

Governments are not the only parties at fault. The need for private actors to extract resources (particularly in the case of mineral resources) has led to "corrupt marriages between unscrupulous oil companies and repressive, unresponsive governments"[25]. While governments cannot be completely exonerated, the role that private actors play also needs to be acknowledged. Governments are forced to rely on private actors who have the technology and the knowledge to successfully exploit resources, and the companies in turn show their appreciation to officials through "gifts" handed out in exchange for favours. Sometimes the income that was destined for state coffers disappears completely, without any officials noticing or lodging complaints. At the same time, corporate entities are forced to operate in an environment that they might not be able to shape. As much as corporate responsibility is encouraged, it is not always possible for them to change the system in which they operate. Their behaviour only ends up perpetuating a bad system. Encouraging transparency is only half the battle, as is shown in an article examining the effectiveness of the Extracting Industries Transparency Initiative (EITI) in Nigeria.[26] Audits were conducted and in many instances money that was paid was found to be short. Despite this information, no action has been taken. The other half of the battle – punishment for misdeeds, is why accountability is so important and why its absence is a serious detriment to the state.

[24] Refers to attempts to gain access to resources for exploitation either legally or illegally.
[25] Ken Vincent, 424
[26] Paul D. Ocheje, "The Extractive Industries Transparency Initiative (EITI): Voluntary Codes of Conduct, Poverty and Accountability in Africa", *Journal of Sustainable Development in Africa*, 8 3 (2006) [Online]. Available at: http://www.jsd-africa.com/Jsda/Fall2006/PDF/Arc_the%20Extractive%20Industries%20Transparency%20Initiative.pdf [2010 March 8]

2.3 Institutions and infrastructure

When attempting to further development, institutions have been recognised as a crucial element for success. Whatever type of system one is attempting to set up, whether democratic or not, multiparty, developmental state or one based on neoliberal economic principles, institutions are critical. This is true of attempts to prevent the resource curse. Institutions have been shown to have an important effect on encouraging prudent resource management, with weak institutions sometimes being blamed for the adverse relationship between resource wealth and slow economic growth.

The basis of the institutional argument explaining slow growth discounts the effect which resources (whether abundant or not) have. Instead the view contends that slow growth is a result of the mismanagement of gains from resources through the lack of proper institutions to direct funds where they would be most effective. Within this climate it is also difficult for such institutions which could make a difference to take root and flourish. The argument is ultimately concerned with the quality of institutions and their distributional abilities, claiming that the greater the quality of the institutions in place, the smaller the likelihood of slow growth. The authors of one of the articles proposing this explanation first measure the per capita growth rates of states against their dependence on primary commodity export (this would show the resource curse theory). They contrast this with growth rates plotted against institutional quality. The results show that lower growth rates are often associated with poor institutional quality while higher growth rates are associated with higher quality of institutions.[27]

[27] Halvor Mehlum, Karl Moene & Ragnar Torvik, 1-2

3. Conclusion

Having identified the causes that lead resources to be a curse rather than the blessing that they logically should be, the effectiveness of the World Bank's program can be assessed. These four causes (Dutch disease encompassing income instability, good governance, policy and institutions and infrastructure) will be used to measure the preventative power of the World Bank's program in Chad to escape the resource curse and foster economic growth great enough to fund poverty alleviation. The next chapter will show that the World Bank fell far short of addressing the causes of the resource curse in the literature. Despite attempting to stabilize income and encourage principles of good governance, the policy chosen did not deal with problems specific to the environment in which it was being applied.

Chapter Three: Chad

1. History and Challenges

1.1 Political History

Chad's post-colonial political history

> *With its national territory semi-partitioned, its northern half under Libyan occupation and its southern flank threatened by rebel activity; with a government in exile comprising no less than eleven factions at the latest count, some in open warfare with others, some appealing to Libya for continued military support, and others perpetually casting about to form an anti-Libyan coalition; with a central government overwhelmingly dependent on outside donors for military, economic, and financial aid but, nonetheless, highly sensitive to attempts at external manipulation; with a capital city in shambles, an infrastructure thoroughly inadequate for the tasks of rehabilitation and national reconstruction, and anywhere from 100,000 to 200,000 refugees living in neighbouring states-what other state can make as many claims to being unique in coping with, or surrendering to , the blows of adversity?*[28]

The above quotation refers to the situation of Chad in 1986. Despite its age it gives a good representation of the instability that Chad has faced. Things have certainly changed, but not much. The biggest change is that Libya is not as much a presence as it once was. Chad is now a democracy, but is still governed by cleavages along clan, ethnic and religious lines. War with Libya is not as big a threat as before, but the potential for a conflict with Sudan exists. Refugees from the Darfur region of Sudan have found sanctuary in Chad. External manipulation outside of Africa is more likely because of the international actors now operating in Chad as a result of its oil resources. Although Chad can now be classed as a democracy (of the most basic kind), the changes that have taken place are largely superficial. There have not been many fundamental changes to the political situation in the

[28] René Lemarchand, "Chad: The Misadventures of the North-South Dialectic", *African Studies Review*, 29 3 (Sep. 1986): 28

country since 1986. To a large extent the changes brought about under World Bank supervision are only superficial.

Political leadership in Chad since independence

Although Chad is classed as a democratic country, this transition did not come about until a few decades after independence. In fact, Chad's democratic status is still questionable, considering that the elections that have taken place thus far have been flawed, with results being exaggerated.[29] Nevertheless, attempts are being made to move towards some kind of democratic process. Prior to the elections held in 1996 power had only changed hands by means of force rather than because an allotted amount of time had passed, necessitating a change in leadership. The unstable political future that Chad was going to have in its post-colonial days was signalled by the incredibly brief reign of its first leader chosen (somewhat) independently of France. Gabriel Lisette's party, the Parti Progressiste Tchadien (PPT) won a majority in the elections that were controlled by the French colonial administration. Lisette became the first Prime Minister of Chad in 1958. His rule did not last long, as he was forced into exile by the rival factions that had risen in his own party. Lisette was replaced by his deputy François Tombalbaye so that when independence was finally granted in 1960, it was Tombalbaye who became the president.[30] This type of change in power would be common in Chad until the 1990s.

Power was wrested from Tombalbaye in 1975 in a coup d' état carried out by junior officers in the Chadian military. He was succeeded by General Felix Malloum, a military commander that had been jailed by Tombalbaye in the early 1970s. Malloum was forced out of power not too long afterwards, in 1979, after a civil war had broken out and international actors had to intervene. Malloum was replaced by Goukouni Guet, a leader of the rebel group Front National de Libération du Tchad (Frolinat). Shortly afterwards in 1982, Hissène Habré

[29] Roy May & Simon Massey, "Notes on Recent Elections: The 1996 and 1997 elections in Chad", *Electoral Studies*, 20 (2001): 130 [Online]. Available at: www.elsevier.com/locate/electstud [2010, 13 December]
[30] Sam C. Nolutshungu, *Limits of anarchy: intervention and state formation in Chad* (Charlottesville: University of Virginia Press, 1996): xi-xiii

seized power. Habré was overthrown in a coup by Idriss Déby Itno in 1990. Déby is currently still in power.[31]

The way that power has changed hands since independence provides an insightful introduction to the instability of the Chadian political system. Since independence right up until the introduction of elections in 1996, no single group has managed to gain complete control over what remains a very fragmented country. Even the French were forced to modify their style of rule, the differences between the populations of the three regions being significant enough for the colonisers to have to adapt the way they governed to the particular attitudes of each region. The northern, mostly Arab population of the Sahara rejected French rule and were resistant to attempts by the French to include them in the modernity of their economic, educational and political systems. The southern people, on the other hand, were more pliable and for the most part took advantage of the opportunities offered to them, including the access to basic education provided first by the state and later by the missions.[32]

1.2 Challenges

Weak political system

A look at Chad's post-colonial history helps to show the political immaturity of leaders as well as the political ignorance of the people. Despite various periods of oppressive rule there have, at all times since independence, been a proliferation of political parties and movements aiming to gain precedence over each other. As is shown, power has changed hands many times and almost every time that change has been forced rather than as the result of adhering to a set of governance rules. Such desire for ruling positions in the country would seem to indicate that those striving to lead have an agenda that they want to implement. In the past, however, attaining power has been an end in itself rather than a means to achieve some greater purpose. The best example of this is the coup that overthrew President Tombalbaye. Once the goal of getting rid of the president had been

[31] "Timeline: Chad", BBC News (24 November 2010) [Online]. Available at: http://news.bbc.co.uk/go/pr/fr/-/2/hi/africa/country_profiles/1068745.stm [2010, November 24]
[32] Virginia Thompson & Richard Adloff, 6-7

carried through there was no further plan on what to do with the power that had been earned. In the end power that had been seemingly unintentionally won was handed over to the political prisoners that the junior officers had freed.[33] In fact Malloum, who ascended to power after the overthrow of Tombalbaye, had not been involved in either the preparation or execution of the coup.

Most movements seemed to lack any kind of ideology or any goals it wished to achieve. Rather than trying to consolidate power and gain effective control over the entire country, leaders have been content to use the power they have attained for the benefit of themselves and their clan, faction, ethnic or religious group (whichever one they feel like favouring at any particular time). Tombalbaye, a devout Protestant and a Sara[34] from the south, as well as the previous PPT leader Lisette, did not attempt to extend their influence to the northern region.[35] Tombalbaye was in fact content to hand northern land over to Libya's Gaddafi, in exchange for a large sum of money.[36]

Cleavages, factionalism and civil war

One of the challenges Chad has had to face is the deep cleavages that exist between the north and south of the country. While the country may be divided into three geographically, ideologically it is often perceived as having two regions. Even the French distinguished between the north and south. The south, or rather the lower 10% of the land was considered to be the most useful and was even dubbed by the French as *La Tchad utile* (the useful Chad), while the rest of the country was called *La Tchad inutile* (the useless Chad).[37] Although this had to do with the seeming economic value of the two areas, with the south being the more useful because of the cotton fields, it was about more than simple productivity. Tensions that existed before colonisation between the Arab north and the Christian south were exacerbated during colonial times by the French.

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[33] Virginia Thompson & Richard Adloff, 49
[34] The Sara are an ethnic group that form of majority of the Chadian population. They live mainly in the south.
[35] Virginia Thompson & Richard Adloff, 24-27
[36] Virginia Thompson & Richard Adloff, 31
[37] Roy May, "Dimensions of Conflict: Internal Dimensions of Warfare in Chad" in Tom Young (ed.) *Readings in African Politics* (London: International African Institute; Bloomington: Indiana University Press; Oxford: J. Currey, 2003): 55

Although the population of Chad is simply seen to be ethnically bifurcated between Arabs in the north and Christians in the south these differences are a lot more complex than this. These two groups do exist and play a role in creating tensions that ultimately lead to violent clashes. However, there is also division along the lines of origins, lifestyle, factions and clans that have created a significant amount of splinter groups. Differences between factions along with competition over the same resources have served to exacerbate basic tensions. Groups that profess to the same goals are often deeply divided. The Front National de Libération du Tchad (Frolinat), formed in the 1950s – the political party to which Hissène Habré belonged – is the best example of this. Frolinat was formed by a group of people that did not have a unified vision – in essence persons of rising importance who were not yet members of another political party. During the reign of François Malloum Frolinat, based mainly in the north where Malloum (and every other leader who came before him) had not managed to gain a foothold, launched several rebel attacks at the government. These attacks were launched either from the far north of the country or from Libya (mainly the latter). Different leaders in the organisation held bases at various geographical locations, further intensifying problems of unity. Most of the time leaders acted individually, with no universal command or plan of action. Once again, as with Tombalbaye, the end goal was to attain power without any real thought given to what would be done with that power. This is what ultimately led to the movement being unsuccessful and in essence imploding.[38]

In Chad it is believed that ethnic and geographic cleavages have been the cause of the strong factionalism that has existed in post-colonial times. While there can be little doubt that these issues have been contributory to the splintering of various groups, it is not the sole cause. Focusing solely on ethno-geographic differences overlooks other salient issues that explain why Chad is the way it is. Lemarchand argued in 1986 that "the intervention of external powers constitutes a critically important variable in any attempt to explain the persistence, proliferation, and political orientation of factions"[39]. At various times in its post-colonial history Chad has been of interest to Libya, Sudan, the U.S. and France.[40]

[38] Virginia Thompson & Richard Adloff, 32
[39] René Lemarchand, 28
[40] Mario J. Azevedo, *Roots of Violence: A History of War in Chad* (Australia: Gordon and Breach, 1998): 144-155

Geography

Chad is a country that has always experienced strong separations along not just ideological lines but physical ones as well. The country is geographically divided into three distinct sections that have had a profound effect on their development. The climactic conditions of these have partly defined the economies of those regions. The northern third forms part of the Sahara desert. In this region the low rainfall means that very few crops can be successfully grown. The area is sparsely populated, consisting mainly of nomads who own livestock suited to the terrain – mostly sheep, goats and camels.

The middle third is located in the Sahel, a semi-arid region that separates the northern desert area from the tropical region surrounding the equator.[41] Although it does not get enough rainfall to make any kind of mass planned agricultural activity possible or profitable, it gets enough precipitation to allow for a wider range of animal husbandry. In this region inhabitants are able to herd cattle, goats, camels, horses, sheep and donkeys. This region is fortunate in that it is able to grow a wider range of crops than the north. It is also the only region in the country that is able to host cattle: the north is too dry and therefore does not have enough pasture land while the south is prey to the tsetse fly. The semi-desert nature of the region means that farmers often have to herd their cattle south to find decent pastures. All things considered, the Sahel is a difficult place to make a living, despite having advantages over the Sahara region. Conditions have become increasingly unpredictable, with drought years followed with equally ferocious floods.[42]

The southern third of the country is tropical and is agriculturally diverse. It is in this region that there has been commercial agricultural activity – the growth of cotton. As the area with the most resources, it houses the majority of the Chadian population.[43] The location of the cotton fields in the south has made it the place where citizens were most likely to find

[41] A.T. Grove, "Geographic Introduction to the Sahel", *The Geographical Journal*, 144 3(November 1978): 407 [Online]. Available at: http://www.jstor.org/stable/634817 [2011, 12 January].
[42] "Surviving the Sahel: It's getting harder all the time", *The Economist* (2 December 2010) [Online]. Available at: http://www.economist.com/node/17628093 [2011, 16 January]
[43] Mario J. Azevedo, 5

work. The discovery and exploitation of oil has raised the appeal of the region. The southern fifth of the country houses approximately half of the population.[44]

2. The Chad-Cameroon Pipeline Project

The CCPP was a joint venture between an oil consortium operating in Chad, made up of three oil companies (ExxonMobil, Petronas and Chevron)[45], the World Bank and other financial institutions. The project was vast and would include the building of a 1070km underground pipeline from the southern Chadian Doba oil fields across neighbouring Cameroon to the Atlantic coast at Kribi. A further 11km submarine pipeline would be built between a floating storage and offloading vessel in the Atlantic Ocean. The underground pipeline would be funded entirely by the oil consortium while the submarine pipeline was partly funded by external sources. Two companies were founded, the Tchad Oil Transportation Company, S.A. (TOTCO) and the Cameroon Oil Transportation Company, S.A. (COTCO) that would manage the respective countries sections of the pipeline in partnership with private actors.[46] Exxon, operating as Esso Chad and as the largest shareholder in the oil consortium, would manage the project.

Outline and rationale of the Revenue Management Program

In order to target poverty alleviation and ensure that petroleum revenues would not be squandered as had happened so many times in the past by so many other countries, the

[44] International Monetary Fund, "Chad: Selected Issues and Statistical Appendix", (IMF Country Report No. 07/28, January 2007): p. 20, para. 4 [Online]. Available at: www.imf.org/external/pubs/ft/scr/2007/cr0728.pdf [2010, 18 July]

[45] The breakdown is as follows: Exxon: 40%, Petronas: 35%, Chevron: 25%

[46] World Bank, Chad-Cameroon Petroleum Development and Pipeline Project: Project Appraisal Document (Report No. 19343 AFR, 13 April 2000): 10. Available at: http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2000/10/21/000094946_00102111244720/Rendered/PDF/multi_page.pdf [2011, 6 January]
The stakes of the respective governments in TOTCO and COTCO were partly financed by the IBRD loans.

government of Chad in partnership with the World Bank created a Petroleum Revenue Management Program (RMP). In Chad 55% of the population are statistically poor.[47] Law 001[48] (Revenue Management Law) concerning Oil Revenues Management was passed by the Chadian assembly on 30 December 1998, after only three hours of discussion. It passed unanimously. It was signed into law by President Déby on 11 January 1999.[49]

The strategy of the program was to earmark certain percentages of oil revenue to be spent on recognised priority sectors to further the primary goal of poverty alleviation. Funds would also be set aside for the benefit of the communities in the Doba region where the oil fields are located. The law made provision for accounts into which revenues could be deposited and from which they would be disbursed. It was decided that an offshore account would be the safest option, and so an escrow account was set up in London with Citibank into which resource revenues would be paid by the consortium. Part of the revenues would be used to pay back the International Bank for Reconstruction and Development (IBRD) loans[50], and part would be repatriated by the government of Chad, in accordance with the division of revenues laid out in the RMP.[51] The transactions concerning these accounts were to be strictly governed to ensure that revenues would not be taken advantage of. The law also detailed the amount that would be set aside and the financial institutions that would potentially be used.

Finally, in accordance with standards of good governance and in the interest of transparency various checks and balances were created to review fund transactions and government spending and behaviour. The most important mechanism created to further accountability was the *Collège de Contrôle de Surveillance des Ressources Pétrolières* (CCSRP), also known

[47] International Monetary Fund, Chad: Poverty Reduction Strategy Paper, IMF Country Report No. 10/230 (Washington, D.C.: International Monetary Fund, July 2010): 17 [Online]. Available at: http://www.imf.org/external/pubs/ft/scr/2010/cr10230.pdf [2011, 15 January].
[48] The World Bank, Project Appraisal Document (PAD), Annex 11, p. 101-104 [Online].
[49] Ian Gary & Nikki Reisch, "Chad's Oil: Miracle or Mirage?", *Catholic Relief Services and Bank Information Services* (February 2005): 42 [Online]. Available at: http://crs.org/publications/showpdf.cfm?pdf_id=187 [5 July 2010
[50] The World Bank Group is made up of various financial institutions. In the case of Chad, loans were given from the IBRD and the International Finance Corporation (IFC). The poor credit rating of Chad meant that the IBRD loans needed to be repaid as soon as was possible.
[51] Independent Evaluation Group, *The World Bank Group Program of Support for the Chad-Cameroon Petroleum Development and Pipeline Construction: Program Performance Assessment Report* (20 November 2009): p. x, para. 9 [Online]. Available at: http://siteresources.worldbank.org/INTOED/Resources/ChadCamReport.pdf [2011, 6 January]

as the Oil Revenues Control and Monitoring Board. The body was the first of its kind. It was to be made up of various members of civil society, government representatives and experts. Further provision was made for regular audits on all funds as well as spending, some to be carried out by the government, some by the World Bank.

The succession of events in Chad

Although the rest of this chapter takes a detailed look at how the RMP attempted to prevent the resource curse, a brief overview of the life and death of the CCPP and the World Bank's involvement is given in order to provide a coherent and chronological account of events.

Construction of the pipeline began in 2000 and was projected to be completed at the end of 2004, but was completed a full year ahead of schedule. Oil began to flow in October 2003, with the first revenues being paid into the Citibank account in November 2003 but only reaching Chad in July 2004. The delay in the payment to Chad increased political unrest, resulting in an attempted coup in May 2004 by unpaid military officers. In October 2005 the government announced its planned amendment of the Revenue Management Law despite this being a breach of its loan conditions with the World Bank. The amendments increased the number of priority spending sectors, increased the government's portion of resource revenues and scrapped the savings fund for future generations. The World Bank's response to this was the termination of payments of loans to the country in January 2006, which resulted in the subsequent hold on payments from the Citibank account. The political situation in the country continued to degenerate, with a rebel attack launched from Sudan in April 2006 reaching all the way to the capital city of N'Djamena before being stopped with French assistance. Later in April a temporary agreement was reached between the World Bank and Chad after Déby threatened to expel refugees from Darfur. A new Memorandum of Understanding was signed between the World Bank and Chad in July 2006, detailing new spending prescriptions and the renewed commitment of the government of Chad to implement Bank policies. In August 2006 Chad accused Petronas and Chevron, two members of the oil consortium, of not paying taxes, despite agreements that existed to the contrary. In the end both companies paid what was asked. Continued government breach of the spirit of World Bank reforms led to the Bank voicing concerns that it could not continue in the country. Chad responded by paying all outstanding loans in September 2008, bringing to an end the collaboration between the two actors.[52]

The remainder of this chapter looks at the strengths and weaknesses of the RMP and the Revenue Management Law in preventing the resource curse. This is done by measuring the actions taken against the causes of the resource curse identified in the previous chapter. Section 2.1 examines the economic provisions for preventing Dutch disease and income instability leading to a resource curse, namely the setting up of a natural resource fund. Section 2.2 analyses the political measures taken to ensure prosperity in Chad. The three political causes introduced earlier, namely institutions, policy and good governance; are used. Finally, section three sums up the findings of this chapter. In the end this chapter comes to one significant conclusion – the measures taken by the World Bank were unsuccessful in dealing with the causes of the resource curse and leading to stable growth and development and ultimately poverty alleviation. There are three main reasons for this. The first is that this failure came about as a result of the decision by the Bank to ignore the conditions in which it was operating, not taking into account the extreme political instability of the Chad when formulating a plan for the management of its revenues and overestimating the improvements the government made. The second conclusion is that increased conditionality does not work, proving to be the case even when conditionality was strengthened. The third conclusion is that despite making provisions for the problems associated with oil, the construction of the pipeline forged ahead at an accelerated rate without consideration for those supporting projects. This effectively rendered that part of the arrangement useless.

[52] Scott Pegg, "Briefing: Chronicle of a death foretold: The collapse of the Chad-Cameroon Pipeline Project", *African Affairs*, 108 431 (January 2009): 312-316 [Online]. Available at: afraf.oxfordjournals.org [2010, June 11]

2.1 Economic causes of the resource curse

Dutch Disease and Income Instability: Natural Resource Funds

Natural Resource Funds

A natural resource fund was set up in Chad in order to help regularize income as well as to monitor the flow of revenues. Despite the acknowledgement that resource funds have only really worked in places that have a stable political system and developed institutions, they are still promoted as being useful for countries dependent on natural resources.[53]

This section will look at the policy of natural resource funds and show how the CCPP was already in trouble when it decided to follow a policy design that has largely been proven not to work. It will then look at the case of the stabilization and savings funds in Chad and the failures that were experienced. It shows that as a policy to counter the effects of the resource curse, natural resource funds are ineffectual. The basic conditions which are required for the policy to be successfully implemented are, more often than not, unavailable in countries that require a fund in the first place. The benefits of creating a fund are limited, both because of the low chance of success as well as the minimal positive effects that the funds have. Similarly, the risks involved in creating a fund are also great and have a higher likelihood of occurring. The case of Chad, while a contentious one fraught with a variety of difficulties, helps to illustrate this point.

Natural resource funds (NRFs) specifically address two of the economic challenges experienced by countries dependent on the export of primary commodities. The first is price volatility, instability of income and the subsequent exchange rate inflation (Dutch disease) that it leads to. The second deals with the problem of preparing for the future of the economy once the primary source of income (natural resource export) has been depleted. It also addresses the question of saving for future generations, or indeed if any revenues should be set aside at all. Traditionally, resource funds take two forms to deal with these challenges: stabilization funds and savings funds. Depending on the need of the particular case in which it is applied, one or both of these are set up.

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[53] See Davis, Ossowski, Daniel & Barnett (2001)
The examples of success that are most often cited are the Norwegian and Alaskan cases.

Stabilization funds aim to create constancy in income. Price volatility of resources makes planning difficult in that shocks are sudden and often unexpected. It is also difficult to predict the duration of a price change, and to know if the change is just transitory or will hold. The way they work is that a percentage of resource rents are placed in a fund that can be drawn on during bust cycles and that should be added to during booms. This is not only to prevent recessions in times of bust but also to create a situation where resource rents are received at a steady rate to prevent excessive spending during booms. Savings funds seek to provide intergenerational equity by saving a percentage of resource rents to be used by successive generations after a resource has been depleted.[54] Future generations should not suddenly find themselves deprived of opportunities and the mechanisms of development because of foolish policies in the present.

By themselves NRFs cannot prevent all the effects of the resource curse. Taken just at face value, at what their core function is, they only help to ease the effects of price fluctuation, addressing a large part of the economic cause of the resource curse. The extra provisions that are included when the fund is set up determine what further impact it will have on alleviating the resource curse. Funds are created through laws which try and promote standards of good governance. Depending upon the specific needs of the place as well as political context in which the fund is set up, rules can be extensive, attempting to ensure that rents are not used unnecessarily or wasted on 'white elephant' projects. If the political-economic situation is stable, for instance in the case of Norway, then the regulation is less involved. In more recent cases (and particularly in the case of Chad) mechanisms to enforce checks and balances have been put in place to expand the function that funds serve. Transparency, accountability checks and balances, and shared management between various actors are some of the tools that have been used to enhance the effect of an NRF. NRFs that attempt inclusion of groups from various strata of society and that create revenue management laws that cannot be easily changed have a greater chance of success than those that do not.[55]

[54] Jeffrey Davis, Rolando Ossowski, James Daniel, & Steven Barnett, "Oil Funds: Problems Posing as Solutions?", *Finance & Development*, 38 4 (December 2001)
[55] Samuel G. Asfaha, "National Revenue Funds: Their efficacy for fiscal stability and intergenerational equity", International Institute for Sustainable Development (August 2007): 2 [Online]. Available at: www.iisd.org [2010, May 19]

In the case of Chad both a stabilization fund (the Citibank account) and a savings fund (the Future Generations Fund, FGF) were set up. All direct resource revenues (royalties and dividends) would be paid into the escrow account by the oil consortium and from there be disbursed to Chad. 10% of royalties and dividends would be placed in the FGF.

Problems

NRFs can be effective, but in most cases they have been found to have minimal influence on creating fiscal discipline and responsibility. There are several reasons why funds are ineffective, not only on a broader scale, but sometimes even with regards to their main function. These will be looked at here and will be used to illustrate why NRFs are insufficient in solving the resource curse problem.

Incentives

A serious flaw in the theoretical argument concerning NRFs is that one of the main causes of fiscal irresponsibility is not addressed. The reason that governments find themselves in difficult situations, such as accruing a large amount of debt, is partly because resource rents are difficult to manage. Governments themselves, however, are partly to blame. The incentives of political actors and the interests that shape the choices they make is a crucial consideration to take into account when looking at NRFs. Simply focusing on the economic effects of NRFs does not give an accurate representation.[56] Reckless spending is often a feature of resource rich countries. When an NRF is implemented, the incentives that determine how governments spend money do not change. This is especially true in cases where governments are coerced into creating resource funds.[57] The importance of incentives and how they do not change with the implementation of an NRF was the focus of a study by Humphreys and Sandbu. They argue that the value of NRFs is not how they affect government spending but on the institutional setup and "*how these affect the political*

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[56] Bruno S. Frey & Reiner Eichenberger, "The political economy of stabilization programmes in developing countries", *European Journal of Political Economy*, 10 (1994)
[57] This was the case in Chad, as will be shown further on.

incentives facing policy makers"[58]. They contend that incumbents face the decision of saving for the future and risking the possibility of funds being spent on completely different priorities should they fall out of power, or spending now on sectors that are important to them. In this situation, even if the incumbent wants to save, it is preferable to spend as much as possible to prevent a change in spending patterns in the future. In political systems where institutions are not available to create a commitment to not change spending drastically, incumbents cannot be sure that their priority sectors will be looked after when they are no longer in power.[59]

In many resource rich countries, having access to resource rents acts as an incentive to public service. Intentions concerning resource rents are not always honourable. Where political systems are unstable, incumbents tend to spend as much as they can in the time that is made available to them. By not changing or even attempting to change the incentives of political actors, NRFs reveal a crushing weakness. In many cases where funds have been ineffective, this can be attributed to changes being made in the rules allowing the government to spend a bigger portion of resource rents than it was prescribed, as well as spending on sectors that have not been classed as top priority.[60]

Incentives in Chad

One of the greatest weaknesses of the program instituted in Chad was the misreading of the incentives of the Chadian government. The reason for Chad's agreement to all the conditions set by the World Bank was never properly questioned. Much was made of the dedication of the government and its unified belief in the project. Sandbu and Humphreys argue that in unstable political systems it is logical for incumbents to spend as much as they can while they are in power, especially when there is a high likelihood of a change in power

[58] Macartan Humphreys & Martin Sandbu, "The Political Economy of Natural Resource Funds" in Humphreys, Sachs & Stiglitz (eds.), *Escaping the Resource Curse* (New York: Columbia University Press, 2007): 195.
[59] In their chapter they create various scenarios that help explain why in weak political systems NRFs cannot work. Their analysis takes into account the desire to stay in power and the pressures of interest group politics. They also provide mechanisms through which NRFs can be made more effective, such as restrictions on spending, shared decision-making and transparency. These ideas can only partly ameliorate the problems of the resource curse in the absence of political will.
[60] Ugo Fasano, "Review of the Experience with Oil Stabilization and Savings Funds in Selected Countries", IMF Working Paper WP/00/112 (June 2000) [Online]. Available at: http://www.imf.org/external/pubs/ft/wp/2000/wp00112.pdf [2010, June 11]

being accompanied by a drastic change in spending priorities. Chad was and continues to be an exact example of such a state, and in fact is probably more volatile than the average state pictured by Humphreys and Sandbu.

In the World Bank's Project Appraisal Document (PAD) continuous mention was made of the widespread support for the CCPP and the RMP in the Chadian legislature. In preparation for the CCPP and the involvement of the IFI Déby had had to first ensure that Chad became a member of the various bodies of the World Bank Group, so that it would qualify for loans from the Group as well as other financial institutions.[61] This included a commitment by the President to democracy as well as the embracing of economic liberalization. For example, presidential elections were held for the first time in 1996, the number of public enterprises was reduced from 50 to five in the 1990s and the size of the military had been reduced by half.[62] Although these preparations were exaggerated in both their importance and their effectiveness in helping to stabilize Chad, they were a step in the right direction toward creating the kind of system the country would need to manage its new wealth.

What was not considered was the fact that Chad had no choice but to accept all the conditions set out for it. The oil consortium had indicated that operating in Chad would be risky both because of the precarious political situation as well as the criticism the companies would receive at home and internationally. It had approached the World Bank to help referee the project, giving it some credibility.[63] The Bank would also have to fund the stakes of the governments of both Chad and Cameroon so that they would have part ownership in the pipeline. Although only minimal funding was provided by the Bank (5% of the total cost), the government of Chad knew the project would not have gotten underway without its involvement.[64]

There were several indications that Chad was only half-heartedly meeting the conditions set out. The elections that had taken place had hardly been model, for example.[65] The biggest

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[61] For a breakdown of the loans provided to the Government of Chad and where they came from see the PAD.
[62] Robert Calderisi, "The Chad-Cameroon Oil Pipeline", *The Trouble With Africa* (New York: Palgrave Macmillan, 2006): 179-180
[63] John Ghazvinian, *Untapped: The Scramble for Oil in Africa* (Florida: Harcourt Books, 2007): 249-250
[64] Robert Calderisi, 181
[65] Roy May & Simon Massey, "Two Steps Forward, One Step Back: Chad's Protracted 'Transition to Democracy'", *Journal of Contemporary African Studies*, 18 1 (2000): 121 [Online]. Available at: http://www.informaworld.com/smpp/title~content=t713429127 [2010, 27 November]

indicator came in 2000, when in was reported that Déby had spent part of the $25 million dollar signing bonus the country had received on arms.[66] This led to considerable embarrassment on the World Bank's part, especially once it realised that there was no legal action it could take as the Revenue Management Law did not cover bonuses. Although provision had been made for repercussions should Chad renege on its side of the agreements, thereby creating incentives for the government to follow the program, no consideration had been given to how the government would be made to stay in line once it no longer needed the financial assistance of the World Bank.

By pretending that the intentions of Chad were wholly pure and that it had decided just at the right time to adopt liberal market democracy the actual incentives of the government to simply get the pipeline built so it could earn oil rents was overlooked, to the eventual detriment of the entire enterprise.

Temptation

The idea behind having a fund basically boils down to having currency available in situations where there is a decrease in the price of a resource (in the case of stabilization funds) and to have savings available for future generations when a resource is depleted. What this essentially amounts to is the presence of a repository of cash. In an environment where funding is scarce and need is great, it is not difficult to imagine that attempts would be made to "liberate" some of the funds for alternative spending. As Asfaha says:

> *When funds are readily available and known by all to be available, it requires exceptionally strong government with strong fiscal discipline to resist public and interest groups' pressure for more spending.*[67]

[66] Ian Gary & Nikki Reisch, 42

[67] Samuel G. Asfaha, "Economic Policy in Mineral-Rich Countries", *United Nations Research Institute for Social Development* (November 2008): 15 [Online]. Available at: http://unrisd.org/unrisd/website/document.nsf/ab82a6805797760f80256b4f005da1ab/73e1136fb855c41dc125751a004842d4/$FILE/draftAsfahaREV.pdf [2010, June 11]

The temptation to spend funds that are so readily available (despite the rules governing NRFs) is hard to resist. As Asfaha notes, the impetus does not always come from government itself, but also from other interest groups that are looking for support for their various causes. Long term benefits are far less immediate than short term concerns, and when these concerns are strong enough, rules of NRFs are changed so that funds can be easily accessed.

This is exactly what happened in Chad. As soon as it was possible the Revenue Management Law was amended by the government, changing the prescriptions regarding the spending of resource rents and scrapping the Future Generations Fund.[68] Déby's overwhelming majority in the National Assembly meant that the law was amended as easily as it had been passed.

Preconditions

Another serious weakness of NRFs is that they require the presence of certain conditions in order to be successful. NRFs are governed by laws, which presuppose the existence of a functioning, independent and truly representative legislature. A legislature that is not independent will not be able to pass a law that effectively governs spending, or could be coerced into passing a law that individuals do not agree with. Similarly, it will not be able to prevent government from making changes as it wishes. A legislature that is not truly representative will not take the interests of all into account when creating governing structures. The strongest form that a revenue management law can take is if it becomes a part of the constitution, making it difficult to amend or repeal altogether. This requires there to be a constitution which is adhered to and not easily amended. All of this is not always available and is especially hard to come by in cases of countries just coming out of a conflict that have not had time to develop functioning political institutions.[69]

The dissemination of information concerning the fund is an important added feature of NRFs that allows them to be more inclusive. The facilities needed for this to happen are not

[68] Scott Pegg, "Briefing: Chronicle of a Death Foretold", 313
[69] Erika Weinthal & Pauline Jones Luong, "Combating the Resource Curse: An Alternative Solution to Managing Mineral Wealth", *Perspectives on Politics*, 4 1(March 2006): 40 [Online]. Available at: http://www.jstor.org/stable/3688625 [2010, May 19]

always available. In setting up all the features of the fund, this particular one can get overlooked. Of course not all funds make provision for this feature in the first place. The other problem is maintaining an open channel of communication, keeping the information flowing after all the initial hubbub during the setting up of the process has died down.

The complexity of agreements is sometimes a hindrance to success as well. When policies are drafted and laws are passed, they do not always take into consideration the limitations of the environment in which they have to function. Policies that are too ambitious are difficult to implement and almost impossible to implement successfully.

With these conditions in mind it seems to have been almost irresponsible of the World Bank to try and create a resource fund in the first place. Not only were the conditions needed not developed, they were hardly even present. The earlier section on the history of Chad showed the unstable experience that the country has had from independence all the way up to Déby's rise to power. And even though Déby has in his turn taken measures to democratise his country and target poverty alleviation, as has just been shown, this has been done half-heartedly with the purpose of meeting criteria for funding rather than through a desire to create a representative government in Chad.

Not only do NRFs not promote broad institution-building, in order to be successful it requires certain standards of good governance to be present. Weinthal and Luong identify three conditions that need to be met for an NRF, or revenue management scheme, to be successful. The first is that actors from civil society, for example NGOs, need to be have their civil liberties protected so that they feel able to speak out and participate without fear. A civil society that is not free is ineffective as a means to be a check against government misbehaviour. At the same time, they cannot be allowed to overrun officials with requests for funding that are not budgeted for. Civil society also has to be informed and aware of the processes taking place around them. The second is accountability – all involved in the process whether local or international should be able to hold public servants responsible for their decisions. This condition is one that is certainly easier said than done. Third, all actors involved, particularly government officials need to be committed to a process that is open and accountable.[70] The importance of political commitment cannot be stressed enough.

Attempts were made to meet these conditions in the RMP. It was for this reason that the scope of the RMP was so encompassing and intricate. The preconditions required can be considered political rather than economic in nature. The next section will examine the three political strategies recommended to combat the resource curse. The failure of the RMP and the government of Chad in implementing and keeping these conditions in mind have contributed to the failure of the economic policy to prevent the economic effects of the resource curse.

[70] Weinthal & Luong, 41

2.2 Political causes of the resource curse

Policy: Revenue Management Program

It is hard to think of another moment in history when a sovereign country has allowed foreign players to dictate the management of its internal affairs to such a level of detail, during peacetime, with barely a peep of dissent.[71]

Spending prescriptions

The problems that contributed to the failure of the project and the end of the involvement of the World Bank had partly to do with conditionalities placed upon the government of Chad. The creation of the CCSRP, the spending restrictions (on the amount available to spend and what revenues would be spent on) and the revenue being deposited in an account not just outside the country but also outside the control of the government were completely novel additions to the more common methods of dealing with resource rents. These specifications meant that the government was restricted to what it could spend on as well as how much it could spend. It is not difficult to understand why the government was forced to focus its spending on sectors like education and infrastructure. The stated mission of the World Bank was to successfully use resource revenues to target poverty alleviation in Chad. The government had also not had the best history of spending what resources it had for the benefit of the people. Thus the Bank chose to ensure that the money was allocated where it needed to be.

The agreement that was created concerning resource rents was very specific and complex in its prescriptions. In the planning stages those involved came to realise that there would have to be a template budget in place in order to prevent the reckless spending of government and to ensure that what was spent was directed to the areas that most needed funding. In the agreement between the World Bank and the government certain thresholds were agreed to. Of the direct resource revenues (royalties and dividends), 10% was to be saved in a Future Generations Fund that was not to be withdrawn from. 72% was to be spent on five priority poverty sectors: education, health and social services, rural

[71] John Ghazvinian, 251

development, infrastructure, and environmental and water resources. 13.5% was allocated for discretionary government spending. The remaining 4.5% was to be spent specifically on the Doba region to act as recompense for the adverse effects of the mining.[72] Indirect revenues (taxes) were not party to the prescriptions of the RMP. Not surprisingly, this agreement did not last very long.

In 2005 the Revenue Management Law was amended. The amendment had three effects. The first was to include to the list of priority sectors justice, security and territorial administration. The second was to increase the amount that could be spent on non-priority sectors from 13.5% to 30%. The third resulted in the abolition of the FGF. In this case, where there was a large international presence and where international financial bodies had provided funds for capacity building, the inconstancy of revenue management plans is shown. The ease with which the law was amended to abolish the FGF shows the weakness of agreements in a weak political system.

This once again shows that to a certain extent the World Bank acted as though it were in a political vacuum, that its prescriptions would be readily complied with and have no repercussions. There is no doubt that the priority sectors recognised in the RMP were of critical importance for successful poverty alleviation. However, by not acknowledging that the primary interest of those in power was not improving the conditions of the general population but maintaining their positions of privilege, the World Bank increased the chance of failure. In 2000, before construction had even begun, Idriss Déby made it clear what his personal priorities were when he purchased arms with the signing bonus the country had earned. From the political history of Chad it can be seen that no leader has been able to consolidate his hold on power for very long and with the exception of Déby, no leader has been able to gain his position without force.[73] Internal strife that some contend began under the rule of Tombalbaye has led to continued tensions and contest for power. The way that power had changed hands – almost always through violent means – showed that Chad could not yet be considered a unified nation.[74] The history of changes in power have shown the difficulty that Idriss Déby faced to stay in power, a difficulty exacerbated by the

[72] Scott Pegg, "Briefing: Chronicle of a Death Foretold", 313
[73] Although Déby did come into power through the use of force in 1990, he is also the country's first democratically elected president.
[74] Roy May, 57

new lure of oil revenues, making the leadership of the country more lucrative than it had ever been before.

Conditionality

Amongst the many things that made this project different from others was the level of conditionality imposed on the government. Never before (and probably never again) has conditionality been so heavy on a loan made by an IFI. The reason the World Bank gave for this was that it was hesitant to be a part of the project in the first place, and would only do so if the highest attention was given to ensuring that all practices and dealings in Chad were carried out fairly and with due diligence to keeping negative externalities to an absolute minimum. This included all parties involved paying strict attention to environmentally conscious practices as well as socially conscious ones.

There were two major reasons that this interventionist approach was taken with Chad. The first reason was the well-known experience of oil and the misuse of rents by African (as well as other) countries. The stated reason for the way the project was set up is best captured by Robert Calderisi:

> *Its* [the World Bank's] *sole interest was in ensuring that the lessons of past oil investments in Africa would be reflected in the design of the project, that it would meet the highest international standards of environmental and social protection, and that the oil revenues would be used for the good of the people of Chad rather than wasted on 'prestige' projects or siphoned off to foreign bank accounts.*[75]

By being involved in the project against the recommendations of their own experts as well as activist groups all over the world, the World Bank was putting its reputation on the line. Not only was it providing financing as well as technical assistance, it was vouching for the stability and steadfastness of the Chadian government as well as the value of the project in

[75] Robert Calderisi, 178-179

general.[76] It therefore had to show the rest of the world that it was doing the right thing for the benefit of the Chadian people.

The second reason for the differences in the design of this project was the generally unsatisfactory performance of aid on the continent. There is a growing amount of literature arguing that aid in its own way can be just as damaging for governance as natural resources. Both are types of income that accrues to governments without the involvement of their citizens. They are "unearned" forms of income. The theory argues that because the money is not taken from nor ever really seen by the public they take less of an interest in how it is spent, demanding less accountability of their governments.[77] Although the design of the project did not categorically aim to transform resource rents into "earned" (taxed) income, it did try to make sure there was a higher level of accountability imposed on the government – a new take on an old solution.[78] The creation of the CCSRP as well as the other arrangements made was an attempt to try an updated tactic to generate a good return on the Bank's investment.

Why conditionality does not work

One of the ways that the World Bank tried to keep the government on the straight and narrow was to set strict conditions with penalties to government spending. After various actions by the government that went against the spirit of the agreement, the World Bank threatened and eventually did freeze all funds flowing into the country for the project. In 2006, with the economy falling to pieces and after an attempted coup in which rebels reached all the way to the capital of N'Djamena, the World Bank and the government negotiated a new agreement. It allowed for greater government spending as well as increased efforts at transparency and accountability, in return for which the World Bank would unfreeze the accounts that had been frozen. In 2007, as further monitoring groups

[76] Ian Gary & Terry Lynn Karl, "The Bottom of the Barrel: Africa's Oil Boom and the Poor", *Catholic Relief Services* (June 2003): 64 [Online]. Available at: http://crs.org/publications/showpdf.cfm?pdf_id=183 [10 December 2010].
[77] Alastair Smith, "The Perils of Unearned Income", *Journal of Politics*, 70 3 (July 2008): 780 [Online]. Available at: http://as.nyu.edu/docs/IO/2806/Peril_of_Unearned_Income.pdf. [2009, August 23]. See also Ross (2004), Herb (2005), Moore (2007)
[78] Robert Calderisi, 177

were disbanded by the president, the World Bank realised that its position was not sustainable. When this was related to government the response was to repay all outstanding loans, effectively ending the relationship between the World Bank and the government.[79]

When governments are able to access resources, they cannot be made to adhere to policy restrictions that resort to coercion. As the IAG itself noted in its report:

> *Given that in passing Law 001, Chad had to accept certain constraints on how it managed its oil revenues, it was to be expected that it would seek to have greater flexibility as soon as it was able to do so. This was a known risk that did in fact materialize.*[80]

In the case of Chad, not only were the funds available as a result of the government being able to rely on indirect revenue (through taxes) which were not covered by the Revenue Management Law, as well as the funds from the abolished FGF, the government also had a potential investor available in the newly emerging economies, particularly China.[81] The presence of an alternative business partner has allowed weaker states that usually get dictated to to set some of the terms of trade themselves. This occurred in Chad when President Idriss Déby recognised China's right over Taiwan.[82] A clear signal was being sent to the World Bank and the oil consortium operating in Chad that the country could easily take its business elsewhere and be welcomed without censure.The paying off of the World Bank loans, more than any other action, shows that the country's intention in adhering to World Bank policies was only to get the project started so that resource rents could be earned. As soon as the government was able to, it released itself from the chains that the Bank had bound to. Once again, it can be seen that the misreading of the government's commitment and the blind eye turned to the political instability of Chad was fatal to the RMP.

[79] Scott Pegg, "Briefing: Chronicle of a death foretold", 316
[80] International Advisory Group (IAG), *Final Report: Chad-Cameroon Petroleum Development and Pipeline Project* (3 September 2009): pg. 21 para 209
[81] This is visible through the fact that in 2006 Chad switched its recognition of Taiwan to that of China.
[82] Scott Pegg, "Briefing: Chronicle of a Death Foretold", 215

Good governance: Improving Accountability

Accountability

The policies in Chad were extensive, including the creation of oversight committees to increase transparency and accountability. This was in response to concerns voiced by both international organisations as well as civil society, who were worried that the country's levels of corruption would mean that funds would not be seen by those most in need. Included in the law governing revenue management was the provision for a body that would oversee the spending of oil revenues. This body was constituted in 2001 and was called the *Collège de Contrôle de Surveillance des Ressources Pétrolières* (CCSRP). The Revenue Management Law provided the prescription for the members of the CCSRP in order to ensure equitable representation of all relevant parties. The breakdown of representatives would be as follows:

- one magistrate serving on the Supreme Court
- one deputy
- one senator
- the national director of BEAC [Bank of Central African States]
- the Central Treasurer
- the Director of Issues Relating to Oil Revenues
- the Director of Planning and Development
- one representative of local NGOs
- one trade union representative[83]

As with so many other prescriptions of the RMP, the setting up of the CCSRP (officially launched in 2001) was rushed, due in large part to the purchase of arms by President Déby with the signing bonus received from the oil consortium.

The CCSRP experienced problems from the beginning. This is not surprising considering that an institution aimed at creating political accountability had never before been implemented in Chad. The outlook for success seemed to be optimistic, considering that the body would

[83] The World Bank, PAD, Annex 11, p. 103, Section 1: Revenues Control and Monitoring Board (CCSRP), Article 16

be able to rely on the expertise of the World Bank and the success that civil society had had in removing Shell and Elf, originally part of the oil consortium in place of Petronas and Chevron, from the country.[84] However, the fast-moving pace of the project meant less training time, essentially throwing the members into the deep end when oil started flowing. At an anti-corruption conference taking place in London in 2004 the vice-president of the committee Therese Mekombe listed the shortcomings that the committee had to deal with – particularly the lack of information being provided to the CCSRP by both the government and ExxonMobil. She also highlighted problems of insufficient funding and personnel.[85]

The effectiveness of the CCSRP was dealt a blow when Idriss Déby announced his brother-in-law Idriss Ahmed Idriss as the president of the central bank. This position came with the privilege of a seat on the CCSRP, essentially closing the door on any criticism levelled at the government from the body that was designed for the specific purpose of keeping the government in check.[86] The committee that had been an innovation of the RMP and a potential benchmark for future cases was rendered toothless in one fell stroke.

Despite hopes that the CCSRP would create transparency and accountability in the spending of resource revenues, this has not been the case. The dependence on the government for information concerning spending meant that chances were low that it would be frequently or even accurately given – the institutional capacity simply did not exist. The "difficulties of creating a functioning system of political accountability in a country unfamiliar with such mechanisms"[87] proved to be insurmountable in the end.

Mechanisms of accountability had to be created from scratch. The mechanisms that were created were not strong enough to act as actual deterrents against bad behaviour. The worst that could happen to a government that flouted the rules laid out by an organisation is that funding could be taken away. This is not a serious consequence when resource rents can be relied upon. Once oil starts flowing it is almost impossible to stop. The most serious limitation is that the accountability that was created pertained only to resource revenues

[84] John Ghazvinian, 252
[85] Mark Doyle, "Chad's oil watchdog 'powerless'", BBC News (25 May 2004) [Online]. Available at: http://news.bbc.co.uk/2/hi/africa/3748061.stm [2010, June 11]
[86] Scott Pegg, "Can Policy Intervention Beat the Resource Curse? Evidence From the Chad-Cameroon Pipeline Project", *African Affairs*, 105 418 (2005): 19
[87] Gary & Reisch, 51

and not to other practices. It is true that bad political behaviour could lead to a suspension of support, but often only as a last resort. However, for resource exporters, rising incomes mean that it no longer has to partake of practices it does not want to in order to secure funding.

Institutions and infrastructure: Capacity Building

Creating capacity

An acknowledged difficulty that would have to be overcome for the RMP to reach its eventual goal of poverty alleviation was the lack of institutional capacity in Chad. Between 1960 and 1980, Chad barely met the criteria of juridical or empirical statehood. Chad as a state became a reality for the first time under Habré. Even then, it has continued to be racked by divisions along ethnic, religious, factional and geographic lines. Habré was able to achieve a certain level of statehood for Chad with the help of France and the United States.[88]

In order to counter this and enable Chad to effectively manage its oil resources the World Bank embarked on a major capacity building project – the Petroleum Sector Management Capacity-Building Project (PSMCBP). The purpose of the project was two-fold. The first one was aimed at ensuring responsible environmental and social management. It would ensure that the environmental impact of the project would be taken into account as well as creating the capacity for dealing with potential hazards that would affect the environment, such as oil spills. It was also responsible for the effect of the pipeline on the populations located around it, ensuring that they would be fairly treated.[89] This part of the project will not be examined. The second part was aimed at creating the ability for the Chadian government to successfully manage its resource revenues. It is this project that will be the

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[88] Roy May, 55
[89] IAG, p. 10, para. 109

focus on this section. The capacity building project was to run alongside the construction of the pipeline, the so-called parallel development of the two. The project was expected to be completed in June 2005.[90] This meant that the PSMCBP would be finished around the same time that oil would begin flowing through the pipeline.

The stated project objectives in the PAD were as follows:

- *Manage the development of its petroleum resources in an environmentally and socially sound manner, beginning with the Doba Petroleum Project (i.e., the Chad Export Project) in southern Chad;*
- *Minimize and mitigate the potential negative environmental and social impacts of the Doba Petroleum Project on the producing region, strengthen the local capacity in the region, and provide opportunities for the region's residents to improve their living conditions; and*
- *Establish an effective framework for further sound private sector investment in the petroleum sector, and engage effectively with such investors.*[91]

Although the goals of the PSMCBP were essential for Chad to have any hope of successfully managing its resource revenues and using them as a spring board to encourage further private investment the project did not deliver on its promise. In the reports published after the termination of the CCPP by the various auditors called in by the World Bank the PSMCBP was judged to be a failure. Two main failures have been noted.

The first problem concerned the timing of the PSMCBP. As stated, the project was to run alongside the construction of the pipeline, with the two finishing at around the same time so that when oil eventually started flowing and revenues rained in the government of Chad and civil society would be prepared on how to deal with the sudden influx. Once construction on the pipeline began, however, it became clear that the capacity building

[90] Development Credit Agreement (Petroleum Sector Management Capacity-Building Project) between Republic of Chad and International Development Association (Credit Number 3373 CD, 7 July 2000): 19 [Online]. Available at: http://siteresources.worldbank.org/INTCHADCAMPIPE/Resources/tdcap_dca.pdf [2011, 17 January]

[91] External Compliance Monitoring Group, First Site Visit – Post-Project Completion December 2004 (January 2005): 33

project would not be completed in time. Blatant breaches of the spirit of the project showed the possibilities of what could happen if Chad was not prepared on how to effectively spend the $1.7 billion it was projected to receive over 25 years.[92] In the end the pipeline was completed a full year early, with the first oil flowing on 10 October 2003.[93] The PSMCBP was so delayed that by the time revenue began to come in it could not be transferred from the escrow account in London to Chad because the procedures had not yet been worked out. Resource revenues from initial operation in October 2003 only reached Chad in July 2004.[94]

The second problem, just as serious as the first, but which perhaps should have been given more consideration, was the dearth of capacity in Chad before the CCPP had begun. Early on, scepticism abounded over the capacity building projects.[95] As with the reforms Chad had been making to qualify for a World Bank loan (such as its supposed democratization) the PAD glossed over the severe lack of any kind of institutional capacity in the country. Given the scope of the project as well as the risks inherent in exporting oil, as well as the recognised role that institutions play in mitigating the effects of the resource curse, ignoring such a glaring problem is nothing less than irresponsible of all the parties involved. In the documents published by various bodies of the World Bank Group this problem has been noted. Both the Independent Evaluation Group (IEG) and the International Advisory Group (IAG) noted that part of the failure of the capacity building projects was the weakness of the Chadian system in the first place. Both have recommended that similar models should ensure that capacity building and production are sequential rather than simultaneous.[96]

Criticism also needs to given to the government of Chad. Although the PSMCBP was badly planned, part of the blame for the poor execution sits with the government that did not take responsibility for continuing the project. The environmental provisions planned never came to fruition because the government made no move to implement them. Similarly, when the technical assistance loan money ran out the government did not continue

[92] World Bank, PAD, 13
This was the amount projected in the PAD in 2000. The high price of oil in 2008 changed to estimate to be closer to $4 billion.
[93] Ken Vincent, 423
[94] Simon Massey & Roy May, “Oil and War in Chad” in Roger Southall & Henning Melber (eds.) *A New Scramble for Africa?* (Scottsville: University of Kwa-Zulu Natal Press, 2009): 222.
[95] Ken Vincent, 432
[96] See IAG (3 September 2009), IEG (20 November 2009)

monitoring activities that had been carried out by World Bank officials.[97] This raised the question of whether the government would have continued with the provisions once the project had reached completion. The government's behaviour when required to carry through arrangements indicates that even if the project had been run better, chances of success would still have been slim. The government's lack of commitment was noted as a flaw of the project and a lesson to be learned for the future.[98]

A lack of institutional capacity is one of the reasons that natural resources lead to various problems. Solutions that are presented should attempt to rectify this shortfall. A benefit of the RMP was that its setup required a law to be passed, banking systems to be partly improved, budgeting to become a feature of governance and required the inclusion of civil society in the decision-making process. Where political systems are weak, however, these changes seem to be transitory, put in place in passing by international groups. Reliance on faulty and undeveloped institutions is also a big problem, making resource policies and safeguards ineffective. The weakness is displayed in the ease with which governments are able to change the rules, in terms of restrictions in saving and restrictions of spending. A solution that has been posed to this is that the revenue law should be made a part of the constitution so that it cannot be easily changed. Even this, though, is not always enough to ensure that the sanctity of the program will be preserved.

Furthermore, there is less institutional spill over to other areas of the country. So much focus was placed on the sector that other sectors, such as the cotton industry, were overlooked and even weakened.

[97] IAG, pg. 12, para. 126
[98] IEG, 89

3. Conclusion

In terms of the resource curse, the solution that was proposed to the problem of Dutch disease and income instability was to create a savings fund (FGF) and a stabilization fund. As was shown, however, this model has been proven not to work unless implemented in a stable and developed political system. In an environment such as the one that was present in Chad, no amount of rules, no matter how strict and complex would have been able to prevent the government from eventually managing its resource revenues as it wished rather than as it was dictated to – even if those methods being dictated were for the greater benefit of the country.

The incentives of both in terms of why it was complying with the prescriptions of the project and of what it would have preferred were in essence overlooked. By ignoring the incentives of elites in Chad and of President Déby in particular, the World Bank set itself up for a fall.

The political causes of the resource curse were also not adequately dealt with. The policy that was chosen, the Revenue Management Program, while certainly innovative and original, was simply not appropriate. Although it attempted to solve all the problems that Chad would face, it failed because of the presupposition that the government of Chad would be willing to take any measure necessary to ensure that it would reach the ultimate goal of poverty alleviation. These presuppositions included several beliefs: that Chad would always be comfortable with its revenues being paid into an offshore account that it could not freely access; that the government would be willing to only receive a small portion of revenues to spend as it wished; that it would always want to justify to the World Bank or to an oversight committee like the CCSRP, every decision it made regarding resource revenues. It was foolish of the Bank to think that a country that had previously been so poor would cede control of its new found wealth so completely to anyone.

Attempts to foster good governance in Chad were not as well planned as other parts of the RMP, such as the spending prescriptions and the stabilization and savings funds. The CCSRP, after the hype stating that it would be a model for future projects turned out to be a failure partly because of the actions by Déby, but also partly because the plan was badly executed. Similarly, the institutional weakness of Chad before the Bank arrived was a clear indicator that Chad was not ready for the kind of project that was proposed and ultimately implemented for the successful exploitation of its oil resources.

At the same time it is important to note that while the World Bank's decision to be oblivious to the political environment in Chad, a large part of the reason that projects were poorly executed, often because they were created in a rush, was because the oil consortium continued with their side of the project without consideration for the progress of the social aspects of the CCPP and the RMP. Even though the World Bank was a contributor to the financing of the project, it ultimately had no say in how the technical part of the project was carried out. As such a "two-speed" process was carried out rather than the parallel project that was planned.

The Chad-Cameroon Pipeline Project and its accompanying Revenue Management Program, with its provisions for the highest ever levels of responsibility demanded from both the private sector (the oil consortium) and the public sector (the government of Chad) was completely unsuccessful. Initially lauded as a potential template for future resource projects, it proved to be closer to an exercise in what not to do.

At the beginning of this section on the CCPP it was stated that one significant conclusion would be reached, that the World Bank was unsuccessful both in dealing with the resource curse and reaching its stated goal of poverty alleviation in Chad. At every stage of the CCPP and the RMP, the political instability in Chad was ignored, as well as the east with which rules could be changed. This was shown through the examination of the RMP.

Chapter Four: Conclusion

At the beginning of this work two purposes were given for the study. The first was to look at the Chad-Cameroon Pipeline Project, a program designed for the country to Chad to help it manage its newly exploited oil wealth in a manner that prevented the resource curse, as had been the case with so many other oil exporters. The program was measured against four theoretical causes of the resource curse, presented in chapter two. The first was the problem of Dutch disease and income instability. The policy prescribed for this was the creation of a savings fund to set aside resource revenues for the future (the FGF) and a stabilization fund to normalize resource revenues. This system of natural resource funds was found to be a poor policy choice, given its failure in almost all states that have employed them. The exceptions to this have been states that already have strong political institutions, indicating the need for certain preconditions for NRFs to be successful. NRFs also do not work because they do not change the incentives of government officials, who amend the rules to gain greater access to funds as soon as they are able. This was the experience in Chad, which few found surprising.

The second was the cause of bad policy leading to the mismanagement of resource revenues. The Revenue Management Program formulated by the World Bank entailed levels of intervention not seen before in a resource project. The program included spending prescriptions that would need to be adhered to by the government of Chad focusing on priority sectors recognised by the World Bank. The RMP also included extreme measures of conditionality that would need to be adhered to by both the government of Chad as well as the oil consortium operating in the country. The RMP was captured in Revenue Management Law 001, passed unanimously by the Chadian National Assembly. While the rationale behind the RMP was sound, the conditions and prescriptions created did not take the political concerns of the country and its rulers into account, nor did it account for the political instability of Chad. The Chadian government showed hardly any interest in carrying out the terms dictated to it, while President Déby showed great interest in keeping himself in power.

The third cause of the resource curse is bad governance. Attempts were made to promote standards of good governance and accountability in particular through the creation of an

Oversight Committee (the CCSRP) that would monitor resource revenues and ensure that they were being spent for the greater good rather than going from state coffers to individuals. Once again a policy that could have been a template which other resource projects could have followed was squandered by bad planning and execution. The CCSRP was created in a rush, without proper consideration given to how information would be disseminated not just to the public but to the board members themselves. The committee ran into problems almost as soon as it was set up and became effectively useless when President Déby appointed his brother-in-law to the position of governor of the central bank, simultaneously giving him a seat on the CCSRP.

The fourth cause of the resource curse is weak institutions and infrastructure. Included in the CCPP was capacity building projects aimed at preparing both governments for the ordeal that they would go through both during the construction of the pipeline as well as once oil started flowing. The capacity building project (the PSMCBP) was supposed to be carried out in conjunction with the construction of the pipeline. However, a lag occurred when the construction was completed a full year ahead of schedule. The capacity building project was so delayed that when the first revenues were paid to the London Citibank escrow account in November 2003 they could not be repatriated to Chad because the mechanisms to transfer the money did not yet exist. Those revenues only reached Chad in July 2004. The incident epitomizes the progress and effect of capacity building in Chad.

All of these individual failures of the RMP can be attributed to the fact that the World Bank did not take the political considerations of Chad into account, and in fact hardly even acknowledged the sovereignty of Chad. It is certainly true that the government and President Déby earn a fair portion of the blame for the failure of the policy. The irresponsibility of the government and the refusal to follow a path of fiscal discipline and sound monetary policy as well as the removal of institutions that could be useful in the future are major contributors to the resource curse that Chad will probably experience. At the same time, the government was not given any significant voice in the setting up of the agreement, in terms of how much would be spent and how much saved. The World Bank assumed that it would be able to keep the government in check despite the fact that the government did not hold much interest in, nor did it really have the tools to enforce transparency and accountability. By trying to implement these policies as outsiders the

World Bank sought to create what cannot be created until a conscious decision is taken to follow the path of accountability.[99] Where political will does not exist, commitment to good governance can hardly be taken seriously, especially if a government is not dependent on an external body for funding.

Even if the World Bank had been able to create the political will that would inspire the government to better behaviour, the rush to get oil flowing would have gotten in the way. The point is that more than anything else, the goal was to extract the oil and start collecting resource rents. If the World Bank had not been involved at all there might have been less awareness of the project both locally and internationally. However, with no serious government commitment, the attempt made was doomed to failure before it even started. This shortcoming has been recognised by both the IAG and the IEG in their respective reports analysing the progress of the CCPP.[100]

The second purpose of this thesis was to attempt to fill the explanation gap of the resource curse. As shown earlier, the literature explains why the resource curse occurs, contrary to conventional logic. The literature also highlights various ways to prevent the resource curse from becoming a reality. As the case of Chad has shown, however, not enough emphasis is placed on the conditions that need to be present for a solution to work. Stating the importance of policy and institutional and infrastructural strength is not enough to prevent the resource curse. Four lessons can be learned from the study above.

Firstly, certain preconditions need to be met in order for any kind of proposed solution to the resource curse to work. Two can be ascertained from the case of Chad. The most basic of these is that there needs to be some level of development in the country concerned. Chad as a state had just come out of a long and protracted civil conflict that had not ended definitively. Déby's rise to power could in fact be considered more as a phase in the struggle for power rather than a resolution to the conflict. It is not enough to say that institutions need to be strong. Their existence needs to be recognised as a prerequisite to successful resource exploitation. If policy is to have any effect at all, at the very least the instruments to carry policy out need to be present. The second prerequisite that can

[99] Nikola Kojucharov, 489
[100] See IAG (3 September 2009), IEG (20 November 2009)

potentially be gleaned from the study of Chad is the need for some level of political stability. Ensuring that the leadership has the political clout to carry through policy is essential to successful implementation. While it is true that political stability is often hard to come by in states that do not possess the added complications that come with natural resources, it is nevertheless elemental to preventing the resource curse. It is important to understand that political stability does not have to entail the existence of an entrenched democratic system. Rather, a policy that is chosen needs to be one that a leader or government has the ability and the will to see through to completion.

Secondly, when devising a policy it is not simply enough to address the problems. The policy has to be specifically tailored to the case taking into account all political realities being faced on the ground. Policy never operates in a political vacuum. The political reality of a country needs to be faced. One could argue that if the RMP had been more politically sensitive and better executed, it might have achieved some measure of success.

Thirdly, policies need to be designed in a manner that ensures that they will be sustainable, that they will be carried out until they reach completion and not be stopped because of problems of funding or political commitment. In the case of resource exporters in particular, financial leverage does not work as governments can simply pay their way out of loans once they start earning resource revenues. A secure commitment needs to be shown by the government of the country concerned showings its dedication to the process through carefully carried out reforms.

The fourth and final important lesson that has been learned is that timing is important. When engaging in capacity building projects, it is essential to the success of the project that these are carried out *before* resources are exported. Capacity building and resource extraction need to be sequential, not simultaneous or parallel. The CCPP makes a strong case for keeping minerals underground even when need is great, as in Chad. As a result of the project billions of dollars were spent in the country and yet the effects are not being felt by those targeted by the policy in the first place. They are no better off. If this is the case then resource extraction could have waited until the social aspects of the plan had been completed. At the same time there is the acknowledged difficulty of forcing private companies to slow progress.

Although oil is incredibly difficult to manage, it does not have to be a curse. As long as the policy is right and those in power are committed to making the policy work, success is possible.

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